

Five forces model

Business



The porter's five forces strategy has gained popularity among various industries and especially when businesses are analysing how to best position themselves against competition and damaging forces; and where the forces are weak maximise on the profits. Among the five analysed competitive forces is supplier bargaining power (Clarke, 1999). Industries require raw materials, human resources, components and other supplies. This therefore leads to buyer –supplier relationships between the Industry and the producers of the raw materials. When the suppliers are powerful, they can exert pressure on the producing industry such as setting very high prices for the raw materials so as to capture some of the industry's profits.

Pines, 2006 in the Journal of emergency medicine asserts that the suppliers enjoy their power if there is credible forward integration. A good example of this is Baxter International which is a big manufacturer of hospital supplies where it acquired American Hospital supply, a distributor. In doing so, the company gained a lot of bargaining power, and consequently set higher prices for the supplies to maximise on the profit. Suppliers offering differentiated products such as pharmaceutical companies offering patented drugs with distinctive medical benefits have power over hospitals and health maintenance organisations as well as other drug buyer companies offering generics. When there are only a few suppliers available in an industry, their bargaining power is higher as they take advantage so as to increase their profits. Scholars have cited that suppliers may gain power when there is a significant cost involved to change suppliers. A good example is the relationship between Microsoft and the PC manufacturers. Microsoft's near monopoly in the operating system increases its supplier bargaining power. However, the supplier bargaining power may be weak in the case of many

<https://assignbuster.com/five-forces-model/>

competitive suppliers, for example the tire manufacturing companies in America, the prices become standardized (Roy, 2006). The suppliers also lose power when there is only a little switching cost to another supplier or the when the industries being supplied with the raw materials threaten to integrate backward producing the industries product if the suppliers are too profitable. The five forces therefore reveal if the industry is profitable and help investors anticipate positive and negative shifts.

Reference list:

Clarke, P. (January 01, 1999). Porters Five Forces Model: A Methodological Critique- or the Importance of Methodology in the Teaching of Business and Economics. *Journal of European Business Education*, 8, 2, 80-86.

Pines, J. M. (January 01, 2006). The economic role of the emergency department in the healthcare continuum: Applying Michael Porter's five forces model to emergency medicine. *Journal of Emergency Medicine*, 30, 4, 447-453.

Roy, D. (2009). *Strategic foresight and Porters five forces: Towards a synthesis*. München: GRIN.